
CBO PAPERS

MANAGING THE REDUCTION
IN MILITARY PERSONNEL

July 1990



CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

| Report Documentation Page | | | Form Approved OMB No. 0704-0188 | | |
|---|------------------------------------|---|--|----------------------------------|---------------------------------|
| <p>Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.</p> | | | | | |
| 1. REPORT DATE JUL 1990 | 2. REPORT TYPE | 3. DATES COVERED 00-00-1990 to 00-00-1990 | | | |
| 4. TITLE AND SUBTITLE CBO Paper. Managing the Reduction in Military Personnel | | | 5a. CONTRACT NUMBER | | |
| | | | 5b. GRANT NUMBER | | |
| | | | 5c. PROGRAM ELEMENT NUMBER | | |
| 6. AUTHOR(S) | | | 5d. PROJECT NUMBER | | |
| | | | 5e. TASK NUMBER | | |
| | | | 5f. WORK UNIT NUMBER | | |
| 7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Congressional Budget Office,Ford House Office Building 4th Floor,Second and D Streets, SW,Washington,DC,20515-6925 | | | 8. PERFORMING ORGANIZATION REPORT NUMBER | | |
| 9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES) | | | 10. SPONSOR/MONITOR'S ACRONYM(S) | | |
| | | | 11. SPONSOR/MONITOR'S REPORT NUMBER(S) | | |
| 12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited | | | | | |
| 13. SUPPLEMENTARY NOTES | | | | | |
| 14. ABSTRACT | | | | | |
| 15. SUBJECT TERMS | | | | | |
| 16. SECURITY CLASSIFICATION OF: | | | 17. LIMITATION OF ABSTRACT | 18. NUMBER OF PAGES 23 | 19a. NAME OF RESPONSIBLE PERSON |
| a. REPORT unclassified | b. ABSTRACT unclassified | c. THIS PAGE unclassified | | | |

PREFACE

As consensus builds on the desirability of reducing the size of the U.S. active-duty military, discussions in the Congress have begun to focus on questions of how fast, and in what manner, the drawdown should be accomplished. A reduction of 25 percent over five years has been widely mentioned. Such a large-scale reduction would face the military services with a difficult choice between sharply reducing the number of new recruits they take in each year or beginning the painful process of involuntarily separating career personnel.

The Congressional Budget Office (CBO) prepared this paper at the request of the Chairmen of the House Armed Services Committee and of the Subcommittee on Military Personnel and Compensation. It examines the effects on the active-duty enlisted forces of a specific option for personnel reductions in 1991--a cut of 120,000 falling almost entirely on the Army and the Air Force--placing the reduction in the context of continued cuts through 1995. The paper focuses on the Army and the Air Force because the 1991 cuts are concentrated on those two services, but the issues that arise would be the same if the cut were more evenly spread among all four services. In keeping with the mandate of CBO to provide objective analysis, this paper makes no recommendations.

Richard L. Fernandez of CBO's National Security Division prepared the paper under the general supervision of Robert F. Hale and Neil M. Singer. Amy Plapp of CBO's Budget Analysis Division performed the cost analysis; retirement costs were estimated by Barbara Hollinshead. R. William Thomas assisted in reviewing the analysis. Sheila T. Harty edited the manuscript.

Robert D. Reischauer
Director

July 1990

CONTENTS

| | |
|--|----|
| SUMMARY | v |
| INTRODUCTION | 1 |
| THE 1991 CUTS IN PERSPECTIVE | 1 |
| EFFECTS OF AN ACCESSION-HEAVY APPROACH | 3 |
| EFFECTS OF AN ACROSS-THE-BOARD APPROACH | 5 |
| CUTS IN FORCE STRUCTURE | 15 |
| CONCLUSION | 15 |
| | |
| TABLES | |
| 1. Divisions of 1991 Strength Reductions among Categories of Enlisted Personnel under Alternative Approaches | 8 |
| 2. Savings under Alternative Approaches to Personnel Reductions | 14 |
| | |
| FIGURE | |
| 1. Distribution of Enlisted Personnel by Years of Service: Current, and 1995 under Alternative Approaches to Personnel Reductions | 6 |
| BOX Spreading the 1991 Reductions More Evenly | 10 |

SUMMARY

Recent events in Eastern Europe and the Soviet Union, as well as the prospect of agreement on a treaty limiting conventional forces in Europe (CFE), have led to suggestions that the active-duty U.S. military be substantially reduced in size during 1991. The Congressional Budget Office (CBO) was asked to examine the effects of a reduction of nearly 120,000 personnel during 1991, with the Army reduced in size by 82,000 (11 percent) and the Air Force by 30,000 (6 percent). Reductions in the Navy and the Marine Corps would be proportionately much smaller. To illustrate multiyear effects, CBO assumed that personnel cuts would continue and, by the end of 1995, would have reduced the size of the Army by one-third and of the Air Force by one-fourth.

This CBO paper focuses on three questions regarding the enlisted personnel reductions the Army and the Air Force:

- o Is it feasible to make a personnel reduction of this magnitude in 1991?
- o How might the armed services make these cuts?
- o How would the services' choices affect career military personnel and the number of people entering the military?

A reduction of 120,000 troops in one year would not be large compared with the drawdowns that followed the Korean and Vietnam wars. The military in those wars, however, was composed primarily of draftees or draft-induced volunteers who were anxious to leave the service. In today's volunteer military, many of those who enter eventually choose to make a career of military service.

Two general approaches illustrate the wide range of options open to the services in making large-scale personnel reductions. An accession-heavy approach, as its name suggests, focuses most of the cuts on the numbers of new recruits. An across-the-board approach, in contrast, requires the involuntary separation of career personnel.

An Accession-Heavy Approach

Accessions into the Army and the Air Force can be reduced sufficiently to accommodate the personnel reduction. Such an accession-heavy approach would avoid the need to separate involuntarily any career personnel before retirement. It might be a reasonable policy for the Army and the Air Force if they expected no further personnel cuts beyond 1991.

If force reductions continue, maintaining an accession-heavy approach would lead to serious problems. In 1995, when the Army completes the five years of cuts assumed in this paper, it would be able to take in fewer than 33,000 new recruits, less than one-third of recent levels. Air Force accessions would be less than one-half of today's already low level. Throughout the five years, both services would be taking in too few recruits to sustain their forces even at their smaller sizes. In the long term, as the small groups of enlistees progressed into the senior ranks, there might be too few to ensure the availability of highly qualified leaders.

In the nearer term, continued cuts in accessions would lead to top-heavy forces. The percentage of personnel in the Army with more than four years of service could rise from 55 percent today to nearly 70 percent by 1995 and in the Air Force to almost 80 percent from under 70 percent today. Even if the services were to promote personnel at the usual career points, they could not create appropriate responsibilities for all of those promoted. As senior personnel became more expensive to support, they could find their assigned tasks becoming more elementary.

The Across-the-Board Approach

In contrast to the accession-heavy approach, the across-the-board approach would not let accessions fall to low levels and would include larger cuts in the numbers of personnel already in uniform. Elements of the approach might include:

- o Reducing accessions to the level required to sustain the force at its long-term size. For the Army, this reduction could absorb about one-half of the total cut in strength for 1991 that is assumed in this paper, and for the Air Force, about one-third.
- o Restricting first reenlistments, which generally occur after two to six years of service, to catch many enlistees before they are fully committed to a military career. Roughly 16,000 Army personnel might be denied first reenlistments in 1991 and about 6,000 Air Force personnel.
- o Selectively separating people eligible for retirement. About 1,700 Army personnel with more than 20 years of service might be selected for involuntary retirement in 1991 and about 1,000 Air Force personnel--in both cases, about 5 percent of those eligible for retirement.
- o Involuntarily separating career personnel. Over the 1991-1995 period, the Army would separate an average of about 9,000 (4 percent) a year of its current career personnel short of retirement, and the Air Force about 8,500 (also 4 percent). Because the first-year personnel reductions are so heavily concentrated in these two services, the Army in 1991 would separate about 18,000 career personnel and the Air Force about 11,000.

Forcing people who have already reenlisted one or more times to give up a military career and the opportunity to receive military retirement benefits would be a painful process for the services and for the people involved. The problems associated with involuntary separations, however, must be weighed against the problems they avoid: a gap in the distribution of enlisted personnel among experience levels, sharp growth in the seniority of the enlisted forces, and higher average personnel costs.

Increases in voluntary losses, which might come as a result of reduced opportunities for advancement and the turmoil surrounding a rapid drawdown,

could reduce the number of involuntary separations. Those who chose to leave, however, might be some of the services' best people. Involuntary separations would also be reduced if the services decided to rely more heavily on reduced accessions than an across-the-board approach would allow.

Personnel and budgetary policies could mitigate the pain of involuntary separations. For example, S. 2663 proposes giving military personnel the same unemployment benefits as civilian workers, offering relocation and placement services, allowing separated personnel a second chance to enroll in the Montgomery G.I. Bill, and allowing separated personnel access to military health care for some limited period. Cash benefits could include severance payments like those now given to officers, or retirement benefits that would be vested now but deferred until age 60 or 65.

Cost Savings

In the long term, an across-the-board approach would save more money than an accession-heavy approach. If severance payments were authorized for enlisted personnel using the formula in S. 2663, however, the accession-heavy approach would have the advantage in the first year. The Army and Air Force personnel reductions examined in this paper would reduce 1991 budget authority for personnel by \$1.4 billion under an accession-heavy approach, but by only \$0.9 billion if an across-the-board approach were followed. Without enlisted severance payments, savings under the two approaches would be the same. Over the 1991-1995 period, the across-the-board approach would save \$1.3 billion more than the accession-heavy approach, despite involving \$2.4 billion in enlisted severance payments.

Cutting Force Structure

At the same time the personnel reductions are taking place, the services will be removing units from their force structures. Both activities will tend to reduce readiness: the personnel reductions, by creating temporary mismatches between job requirements and individuals' qualifications; the unit deactivations, by diverting units other than those being deactivated from their normal training activities. Some loss of readiness is probably inevitable, however, whenever significant personnel reductions are made. Slowing the pace of the drawdown might merely spread out its effects.

Conclusion

The reduction of about 100,000 enlisted personnel associated with a total cut of 120,000 troops can certainly be made during 1991. Equally certain is that the reductions will cause some problems, both for the services making the cuts and for the enlisted men and women and the potential recruits whose plans for military service will be frustrated. Focusing the cuts on accessions would avoid one important problem--the need to separate career personnel short of retirement. But a more across-the-board approach, including some involuntary separations of career personnel, will probably be necessary unless large personnel cuts are limited to 1991.

Policies such as providing separation pay for enlisted personnel can mitigate the distress caused by these involuntary separations. Establishing a clear plan for the drawdown and sticking to it can also minimize problems associated with a rapid drawdown.

INTRODUCTION

A substantial reduction in the size of the U.S. active-duty military during the coming year is urged by many observers. With recent changes in Eastern Europe and the Soviet Union signaling a lessened threat to U.S. interests worldwide, and a treaty limiting conventional forces in Europe (CFE) under negotiation, sharp personnel cuts may be warranted. To illustrate the effects of a large reduction, the Congressional Budget Office (CBO) was asked to examine a cutback of 80,000 troops, the number that would be withdrawn from Europe under the proposed CFE treaty. The troops stationed in Europe or at other overseas bases would not necessarily be the ones separated from service. This additional reduction to the 38,000 already suggested in the Administration's budget submission for 1991 would cut active-duty strength by a total of nearly 120,000.

Is it feasible to make a personnel reduction of this magnitude in 1991? How might the armed services make these cuts? How would their choices affect career military personnel and the number of people entering the military? These questions are the focus of this CBO paper.

This paper does not discuss several important aspects of a large personnel drawdown. It does not examine the numbers and types of military units that would be eliminated. Nor does it assess the effects on arms-control negotiations of making personnel cuts overseas--some of which would come out of European forces--before they are required by treaty. Further, the paper does not discuss effects on the officer corps. CBO has not modeled the officer corps in detail, and the high proportion of career personnel in that force, combined with the limitations imposed by the Defense Officer Personnel Management Act, makes the issues involved in officer cuts different from those for enlisted personnel.

THE 1991 CUTS IN PERSPECTIVE

The cut of about 120,000 persons discussed in this paper represents about 6 percent of the active-duty end strength (the number of personnel on active duty at year's end) authorized for 1990. Because a high proportion of overseas troops are in the Army, the cut in that service is assumed to be disproportionately large--amounting to about 82,000 personnel out of a planned strength of 744,000 in 1990, or 11 percent. The Air Force would be cut by 30,000 people, nearly 6 percent of its planned strength of 545,000. Because the 1991 reductions in the Navy (6,000) and the Marine Corps (200) would be proportionally much smaller given the assumed focus on overseas forces, this paper examines only the drawdown in the Army and the Air Force.

These cuts would not be the first in recent years directed at the Army and the Air Force. Between 1987 and 1989, Army end strength fell by 11,000 and Air Force end strength by 36,000. Further cuts of 26,000 in each service are under way during 1990.

Previous Drawdowns

Compared with drawdowns that followed past wars, the proposed cut of about 120,000 personnel in 1991 appears modest. Indeed, even the Army reduction of

82,000 people looks small. As the United States was withdrawing from Vietnam, Army troop strength fell by about 200,000 for two years in a row before plummeting an additional 310,000--more than one-fourth of Army strength--in fiscal year 1972. Army strength also fell by almost 300,000 in a single year following the Korean War.

The comparison with previous drawdowns belies the difficulty of quickly reducing the size of today's volunteer military. Most recruits during those two wartime periods were inducted, or induced to enlist "voluntarily" by the threat of the draft. When these people completed their obligated service, most were anxious to leave. In today's volunteer military, many enlistees completing their initial obligations are anxious to stay for a full career.

Policies To Accommodate a Large Drawdown

In today's environment, how would the armed services carry out a large personnel reduction? First, they would probably choose not to replace some of the personnel who leave the service, a common practice in private-sector firms and government agencies that face workforce reductions. At first glance, the annual turnover of about 300,000 in the enlisted ranks would seem ample to accommodate a drawdown of 100,000, the enlisted portion of the personnel reduction in 1991. Normal turnover seems less ample, however, when one looks at individual services. About 120,000 Army and 60,000 Air Force enlisted personnel will leave active duty this year. To accommodate the 1991 reduction assumed in this paper solely through accessions, the Army would have to choose not to replace 60 percent of its losses and the Air Force 50 percent of its losses.

Not replacing losses is less effective as a means of accommodating a personnel drawdown in the military than in the private sector. In the latter, replacements normally are hired at all levels of experience; the military, for the most part, takes in only raw recruits. Replacements for senior military personnel who leave come automatically from the ranks of those already in uniform. As a result, private-sector firms can reduce their numbers of senior personnel by not replacing losses, but the military services must rely more on increasing separations of people in uniform.

To increase separations, the services might choose to reduce the number of personnel who reenlist after completing their initial term of service. This first reenlistment is a formal decision that usually occurs after an individual has completed two to six years of military service. The number reenlisting is affected by the incentives to stay in the military and by the service policies that determine who may reenlist. Cuts in military pay or cash reenlistment bonuses, slowdowns in promotions, and increased transfers and family separations are examples of changes that would increase the number who elect not to reenlist. To reduce reenlistments, the services can also use less voluntary means, such as raising the performance standards required for reenlistment or simply denying reenlistments to otherwise eligible people.

Reducing first reenlistments would probably be an important tool in any attempt to accommodate large strength cuts because so many people are involved.

In 1990, about 31,000 Army enlisted personnel and 25,000 Air Force enlisted personnel will reenlist for the first time.

Finally, the services could accommodate a reduction in strength by holding down the numbers of those who remain in the military after the second, third, or subsequent enlistment terms. (Although patterns of reenlistment vary, a typical individual makes his or her second reenlistment decision after eight years of military service and the third after twelve years.) At these points, personnel are more committed to military service than earlier in their careers, and the military retirement system provides a strong incentive to stay. Voluntary losses could increase but large increases in losses, particularly among more senior personnel, probably can only be achieved through involuntary separations.

Which combinations of these approaches would the services choose to accommodate a large drawdown in 1991? A wide variety of choices are available, and each service might carry out the reduction in a different manner. Two alternatives, however, characterize the range of likely approaches. The first alternative emphasizes reductions in accessions--the services' preferred approach during recent smaller-scale drawdowns and one that avoids any involuntary separations of career personnel. The second alternative affects career personnel, as well as the number of new recruits in a more nearly across-the-board approach.

EFFECTS OF AN ACCESSION-HEAVY APPROACH

As its name implies, the accession-heavy approach achieves reductions primarily through cutbacks in accessions, but even this approach would probably cut more than just the numbers of new recruits. The Army could cut enlisted strength by about 6,500 in 1991 by modestly tightening its standards for determining whether personnel reaching their first reenlistment decisions are allowed to remain in the military. A similar change could reduce Air Force enlisted strength by perhaps 2,100. In addition, the services might involuntarily separate some personnel who are eligible for retirement. The accession-heavy approach, however, would avoid the need to separate career personnel short of retirement.

Tightening reenlistment standards and forcing some retirements would reduce, but by no means eliminate, the need to cut accessions. Under this accession-heavy approach, the Army's 1991 intake of recruits without prior military service could fall below 50,000, only about 40 percent of the intake in the absence of personnel reductions. Air Force accessions would be cut by about half.

A Reasonable Policy for One Year

A heavy reliance on cutting accessions might be a reasonable policy for the Army and the Air Force if they expected no further personnel cuts beyond 1991. Much of their recruiting and training establishments would be operating at less than full capacity, but this could be mitigated by delaying normal personnel transfers into the affected units. Moreover, for a one-time cut, the services could require some personnel who are eligible to reenlist in 1992 either to leave the military early or to reenlist in 1991. This policy, which in effect borrows losses from the following year,

could reduce the size of Army by 10,000 to 20,000 in 1991. An accession-heavy approach would accelerate the trend toward a more senior military, but only modestly. By borrowing losses from the following year, both the Army and the Air Force could keep their proportions of first-term personnel from dropping by more than a few percentage points--comparable with what has occurred in recent years.

Serious Problems if Cuts Continue

Unless the changes under way in Eastern Europe and the Soviet Union are reversed, 1991 will probably mark only the beginning of sharp strength reductions in the military services. An accession-heavy approach to accommodating a series of large cuts could create serious problems. Accessions would fall to very low levels by the fourth or fifth year of cuts, the ratio of first-term to career personnel would fall dramatically, and a gap would be introduced in the distribution of enlisted personnel among experience levels.

To illustrate the extent of the problems that arise with a continued accession-heavy approach, CBO assumed that over the next five years the enlisted ranks would be reduced by a total of about 500,000 personnel. The Army would be only about two-thirds of its present size by the end of 1995 and the Air Force about three-fourths of its present size. That would leave the Army with a total end strength of about 472,000 and the Air Force with an end strength of 406,000. The Navy and the Marine Corps were also assumed to be cut by about one-fourth, but virtually all of these cuts would come after 1991 and so are not the focus of this paper. In testimony last February before the House Subcommittee on Military Personnel and Compensation, CBO described the assumptions about force structure that underlie these personnel reductions.¹

The combination of continued personnel cuts and an accession-heavy approach would eventually drive accessions to extremely low levels. To understand why, remember that the change in a service's end strength in a given year is simply the difference between the number of people who leave the service and the number of new people brought in. But what determines how many leave? Current service policies are obviously important, as are other factors, such as the level of military pay and the civilian unemployment rate. But the single most important factor is how many recruits the service took in three or four years ago. Most enlisted separations each year come from personnel in their first term: in the Army, more than seven in ten. Thus, low accession levels in 1991 will mean fewer people separating in 1994 and 1995. With fewer people separating, accessions would have to be further reduced in order to achieve continued reductions in the size of the military.

Under an accession-heavy approach, Army accessions could fall below 33,000 in 1995, only about one-fourth of their level in the absence of cuts; the Air Force might be limited to fewer than 16,000 new recruits. Both services would be taking in far fewer recruits than needed to sustain their forces in the long run, even at the reduced levels assumed in this examination.

1. A more complete description appears in Congressional Budget Office, *Meeting New National Security Needs: Options for U.S. Military Forces in the 1990s* (February 1990).

The services could minimize the reduction of accessions in the early years of the personnel cuts by borrowing separations from future years. This policy, employed in the past to increase separations, involves allowing or requiring personnel to either reenlist or leave early. Once begun, however, this policy would have to continue indefinitely, or it would worsen the problem. Yet, to borrow losses from future years would become increasingly difficult as the military shrinks in size. Thus, CBO assumed for this paper that the policy of borrowing separations from future years will not be followed during the period of reductions.

Eventually, the low levels of accessions under this accession-heavy approach would create a "hole" in the enlisted experience profile--that is, the distribution of personnel over years of service. The services could attempt to eliminate the hole by offering cash bonuses or using other policies to induce more people to reenlist. But it is unlikely that such incentives could fully offset the effects of the dramatically lower levels of accessions that would occur under this approach. Years hence, the small number of available enlisted personnel might be too few to ensure the availability of highly qualified leaders.

The increase in average levels of experience under a continued accession-heavy approach would be remarkable. In both the Army and the Air Force, the number of personnel with more than four years of service would decline only modestly and, as a share of the enlisted force, could rise from roughly 50 percent in today's Army to nearly 70 percent in 1995. In the Air Force, the rise could be to nearly 80 percent in 1995 from under 70 percent today. All of the rise would be accounted for by personnel with more than 10 years of service, as Figure 1 shows.

The large rise in average tenure would add to the average cost of keeping a person in uniform, but the resulting management and morale problems are probably even more important. Career personnel would have little opportunity for advancement in such a top-heavy force. Even if the Department of Defense (DoD) elected to continue promoting personnel at the usual points in their careers, appropriate job responsibilities would not be available. Indeed, some senior personnel might find themselves performing more and more of the work usually delegated to junior personnel even as the experience levels, and perhaps the pay grades, of these senior personnel advanced. Morale almost certainly would suffer, and the higher pay following promotion might offer little consolation.

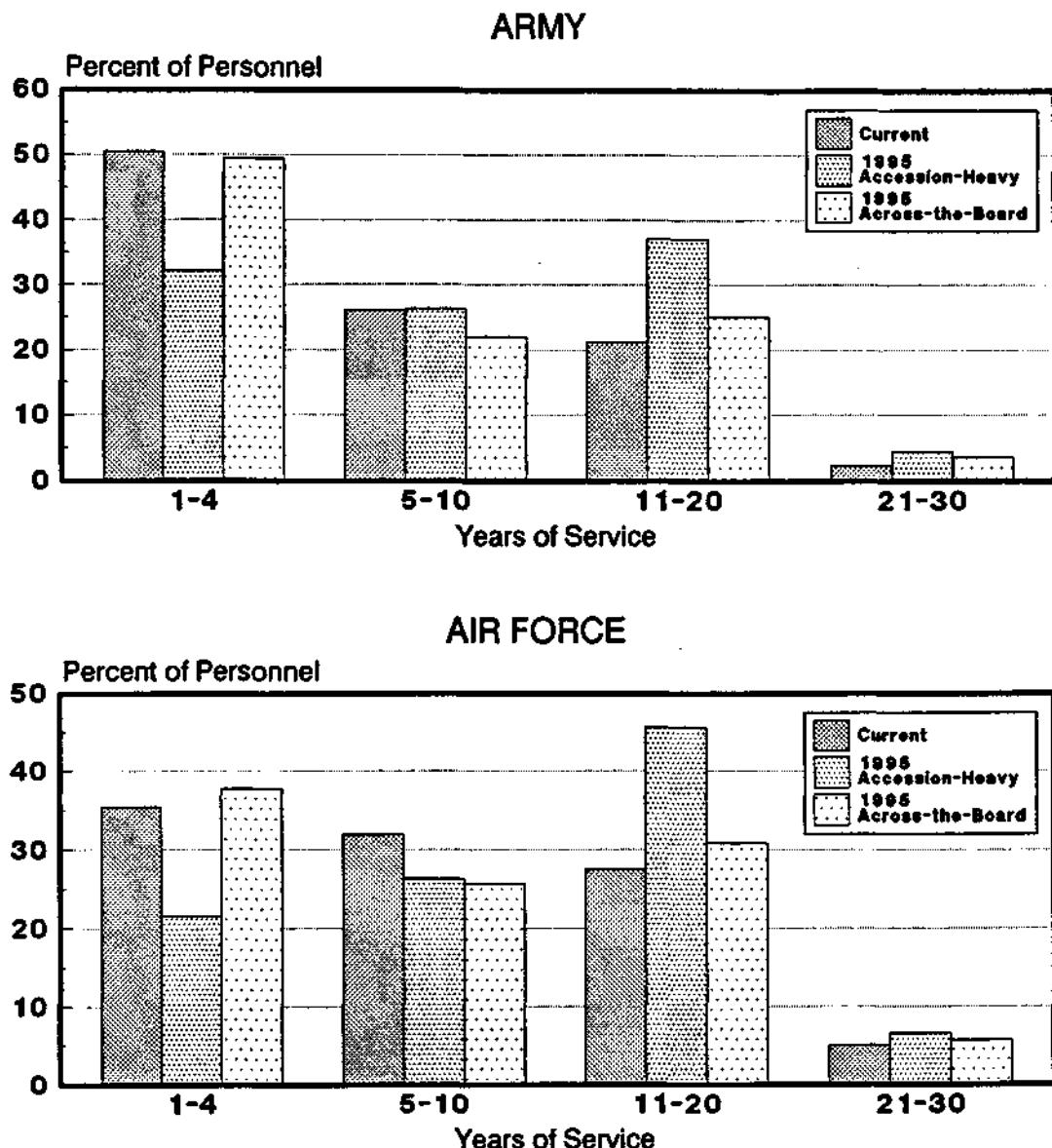
These problems suggest that an accession-heavy approach to large-scale strength reductions could not be sustained over several years. Eventually, the services would probably have to reduce the numbers of career personnel as well as of new recruits and follow a more across-the-board approach.

EFFECTS OF AN ACROSS-THE-BOARD APPROACH

What defines an across-the-board approach to managing personnel reductions? Obviously, it requires discharging some career personnel. Less obviously, it can also involve a considerable cut in accessions during the early years of the reductions in strength, to a level consistent with the long-term size of the military.

Figure 1.

**Distribution of Enlisted Personnel by Years of Service:
Current, and 1995 under Alternative Approaches to
Personnel Reductions**



SOURCE: Congressional Budget Office.

NOTE: Under the accession-heavy approach, most of the personnel reductions are made by bringing in fewer recruits. Under the accross-the-board approach, tightened reenlistment standards and involuntary separations reduce the number of personnel at virtually all years of service.

Elements of an Across-the-Board Approach

An across-the-board approach can encompass a wide variety of policies. A typical pattern, however, might include reduced accessions; restrictions on first, second, and possibly third reenlistments; and selection of some personnel for early retirement.

A Sustaining Level of Accessions. The long-term size planned for a military service, and its voluntary retention rates, determine a natural floor to the level of that service's accessions. Go above that level, and the service later might have to force some of those people to leave in order to reach its planned size; go below the sustaining level, and the problems discussed in connection with the accession-heavy approach could eventually arise.

The sustaining level of enlisted accessions for an Army of 472,000 total personnel--the long-term size that CBO has assumed for this paper--is about 80,000. That level is roughly 40,000 below what the Army would recruit next year if it were not cutting end strength. Thus, about one-half of the Army's share of the proposed cut could be absorbed by accessions (see Table 1). The Air Force could absorb about one-third of its 1991 end-strength cut in accessions without falling below the long-term sustaining level.

Fewer First Reenlistments. Probably the easiest target for cuts of personnel already in uniform is those people completing their initial active-duty obligations. The implicit contract that some believe the military offers--promising a career of 20 or more years to all enlistees who meet minimum performance standards--is presumably least binding at the first reenlistment point. Even in the Air Force, only about one-half of those who stay beyond the fourth year of service will eventually reach retirement eligibility; in the Army, the proportion is about one-third. Moreover, the services have traditionally weeded out poor performers at the first reenlistment point; they could reasonably argue that smaller forces will require only the most capable people, justifying even tighter reenlistment standards.

Aligning the numbers of people reenlisting for a second term with the numbers needed to sustain the smaller forces of the future would require denying first reenlistments to about 16,000 Army personnel and about 6,000 Air Force personnel who otherwise would have reenlisted in 1991. Over the five years of the cuts, about one-fourth of Army personnel wishing to reenlist for the first time would be denied the opportunity and less than one-tenth of those in the Air Force.

Selective Early Retirements. A second possible target for personnel cuts is those people reaching retirement eligibility who wish to remain in the military. This is not a large group--each year, only about 12,000 stay beyond 20 years of service in the Army and the Air Force combined, and one-half of those leave within 2 to 3 years. Nonetheless, this group is a likely source of strength reductions, if only because current legal limits on the percentage of active-duty personnel in the two highest enlisted pay grades (E-8 and E-9) could sharply limit the services' abilities to promote people to these grades. Perhaps 1,700 Army personnel and 1,000 in the Air Force might be selected for involuntary early retirement in 1991. This number would represent about 5 percent of personnel eligible for retirement.

TABLE 1. DIVISIONS OF 1991 STRENGTH REDUCTIONS AMONG CATEGORIES OF ENLISTED PERSONNEL UNDER ALTERNATIVE APPROACHES

| | Army | Air Force | Both Services |
|--------------------------------------|--------------|--------------|---------------|
| Accession-Heavy Approach | | | |
| Reduction in Accessions ^a | 63,500 | 22,800 | 86,300 |
| Additional Separations | | | |
| First term ^b | 6,300 | 2,100 | 8,400 |
| Second term ^b | 0 | 0 | 0 |
| Third term ^b | 0 | 0 | 0 |
| Retirement eligible | <u>1,000</u> | <u>700</u> | <u>1,700</u> |
| Total Reduction | 70,800 | 25,700 | 96,500 |
| Across-the-Board Approach | | | |
| Reduction in Accessions ^a | 35,600 | 8,100 | 43,700 |
| Additional Separations | | | |
| First term ^b | 15,500 | 5,600 | 21,100 |
| Second term ^b | 10,800 | 4,800 | 15,600 |
| Third term ^b | 7,100 | 6,100 | 13,200 |
| Retirement eligible | <u>1,700</u> | <u>1,000</u> | <u>2,700</u> |
| Total Reduction | 70,800 | 25,700 | 96,500 |

SOURCE: Congressional Budget Office.

NOTE: Changes are relative to a baseline that assumes no personnel cuts in 1991. Details may not add to totals because of rounding.

- a. Net effect of reduced accessions on 1991 end strength, after accounting for attrition during the accession year.
- b. First term refers to people who begin the year with 1 to 5 years of service completed (3 to 5 in the Air Force), second term to people with 6 to 9 years of service completed, and third term to people with 10 to 13 years of service completed. These definitions are based on the year-of-service ranges used in determining reenlistment bonuses. Alternatively, first-term personnel are sometimes defined as those with fewer than four years of service completed and all others as career personnel.

Involuntary Separations of Career Personnel. The last probable target for cuts under an across-the-board approach would be people in their second and perhaps third enlistment terms, with between 7 and 14 years of service completed. Significant reductions in the number of these career personnel could probably be achieved only through involuntary separations. (Throughout the reduction period, people approaching retirement eligibility--those with 15 to 19 years of service, perhaps--could probably be spared the distress of being forced out early, although many would have to be separated once they completed 20 years.)

The number of these involuntary separations could be substantial. For the personnel reductions examined here, roughly 20 percent of today's career personnel in both the Army and the Air Force could eventually be separated involuntarily.² Very few of these are people who would have left voluntarily by the end of 1995: among those not yet eligible for retirement, only about 1 in 10.

Involuntary separations of career personnel short of retirement in individual years would be smaller, averaging about 9,000 per year in the Army and 8,500 per year in the Air Force.³ First-year separations would be greater than the average, however, because the assumed reductions in strength in 1991 are disproportionately concentrated in the two services. The Army would separate about 18,000 (8 percent) career personnel not yet eligible for retirement in 1991 and the Air Force about 11,000 (5 percent).

Spreading the 1991 personnel reductions more evenly among the four services would reduce the total number of career personnel who would have to be separated in 1991 under the across-the-board approach. Unless the end-strength targets for 1995 were changed, however, reducing the first-year reductions in the Army and the Air Force would not appreciably affect the total number of career personnel who would be involuntarily separated over the five years, 1991 to 1995 (see box).

-
2. Career personnel are defined here as those with more than six years of service, which excludes all personnel in their first enlistment term as well as some who have reenlisted at least once. Including personnel with four or five years completed would change the number of personnel defined as career and the number involuntarily separated in roughly equal proportion. That is, the percentages of "career personnel" involuntarily separated would not change.
 3. The average numbers include only personnel who would have completed at least six years of service by the end of 1991. Personnel with fewer years of service in 1991 who would not be separated until late in the five-year period, when they could be classed as career personnel, are not included.

SPREADING THE 1991 REDUCTIONS MORE EVENLY

Spreading the 1991 personnel reductions more evenly among the four services without changing the 1995 end-strength targets would delay, but not appreciably reduce, the involuntary separations of career personnel under an across-the-board approach. More evenly distributed cuts would seem to offer a solution to the problem of large-scale layoffs of active-duty personnel in 1991: reduce accessions in all four services to sustaining levels and a painless reduction of 73,000 enlisted personnel could be achieved. Fewer than 30,000 personnel would have to be discharged, even under an across-the-board approach, rather than the more than 50,000 shown in this paper. Unfortunately, spreading the 1991 personnel cuts more evenly does not solve any of the long-run problems associated with a large drawdown, and would probably reduce the five-year budget savings in the Army and the Air Force.

The table below shows how nearly accessions alone could accommodate the first year of even very dramatic cutbacks if the cuts were not so heavily concentrated in two services. The column headed "1991 Reduction in Net Accessions" shows the effect on 1991 end strength of cutting accessions to their long-run sustaining levels. The Navy and Marine Corps end strengths for 1995 are drawn, like those for the Army and the Air Force, from an earlier CBO paper (see footnote 1). All figures are in thousands.

| <u>Service</u> | <u>End Strength</u> | <u>Annual Reduction</u> | <u>1991 Reduction in Net Accessions</u> | <u>Separations Required</u> |
|----------------|---------------------|-------------------------|---|-----------------------------|
| | <u>1991</u> | <u>1995</u> | | |
| Army | 635 | 402 | 47 | 36 |
| Navy | 513 | 403 | 22 | 20 |
| Marine Corps | 177 | 126 | 10 | 9 |
| Air Force | <u>440</u> | <u>327</u> | <u>23</u> | <u>8</u> |
| Total | 1,766 | 1,258 | 102 | 73 |

Only the Air Force would still be forced, under an across-the-board approach, to separate substantial numbers of career personnel. The Army could, if it wished, absorb all of the required separations through reduced reenlistments of first-term personnel. Total costs for severance payments could drop below \$200 million.

Shifting personnel cuts in the Army and the Air Force from 1991 to later years would not affect the pattern of accessions over the 1991-1995 period, nor the effect of those reduced accessions on 1995 end strength. Thus, the change would not appreciably alter the total number of personnel now in uniform who would have to leave by the end of the cuts. The change would defer some of the costs for severance payments, but total costs would rise--for each year that a given person is retained, his or her potential severance payment increases by at least 10 percent in constant dollars because of the formula used to determine payments. Moreover, delaying separations would also delay the savings from having fewer senior people in uniform, and thus reduce the total savings over the five years.

The Issue of Involuntary Separations

Probably the most contentious aspect of an across-the-board approach to personnel cutbacks would be the involuntary separation of second- and third-term personnel, some of whom would have served more than 10 years in the military. These people would have their lives disrupted, face at least temporary unemployment, and lose the chance to receive the retirement benefits that may have been an important factor in their earlier decisions to reenlist. These problems face all Americans who lose their jobs, but that does not make them any easier for military personnel. Even the morale of those not directly affected could suffer because of uncertainty about their futures.

The involuntary separations required by an across-the-board approach could be substantially reduced if voluntary losses were to increase. All of the foregoing analysis assumes that voluntary loss rates will not change as a result of the personnel drawdown. Lacking any relevant history to provide a guide, there is little alternative to making this assumption. The turmoil of the cutbacks and the involuntary separation of some personnel, however, could cause more people to leave the military because of either dissatisfaction arising from the cuts or fear of being forced out later. Voluntary losses could also increase if people decided that a smaller military offered less opportunity for advancement.

To illustrate the importance of increased voluntary losses, CBO examined the effects of a 10 percent increase in voluntary losses through the fourteenth year of service. A change of this magnitude is well within the range of variation over the last decade. Such a change in retention could decrease the total number of involuntary separations required through 1995 under the across-the-board approach by about one-fourth in the Army and by about one-sixth in the Air Force. If voluntary losses were to increase, however, the services would be less able to choose who leaves and might lose some of their more able people.

The services could hold down the number of involuntary separations even further by choosing to rely more heavily on reduced accessions to achieve personnel cutbacks. They might call career-intensive the approach that is described here as across-the-board. Indeed, the services will probably choose, at least to some extent, to rely disproportionately on reductions in accessions.

To the extent that some involuntary separations are still necessary, the distress caused by these separations could be mitigated by personnel and budgetary policies. Full funding of the personnel costs associated with seniority growth--which would occur if those nearing retirement were spared--would avoid the need to slow promotions for the career personnel who remain. Temporary relief from the legal limit on the percentage of personnel allowed to serve in the two highest enlisted pay grades might be considered as a way of avoiding promotion slowdowns and improving morale.

A number of measures could be taken to ease the shock of involuntary separation on those involved. Unemployment benefits for displaced military personnel could be made equal to those available to civilians who are forced out of their jobs; now, military personnel generally receive benefits for fewer weeks and must wait longer before starting. Separated personnel could be offered uncharged

leave time to search for a job, referral services, and priority placement for federal jobs. Those personnel who had not enrolled in the Montgomery G.I. Bill could be given a second chance. Military health benefits could be extended to separated personnel for a limited time. All of these measures are included in S. 2663, introduced by Senator John McCain.

Perhaps the most important action that the Congress could take would be to provide for separation payments to enlisted personnel. H.R. 4003 (introduced by Representative James Slattery) and S. 2663 propose giving severance payments to enlisted personnel who are involuntarily separated short of retirement eligibility under the formula now used for officers: 10 percent of final annual basic pay for each year of service completed. The DoD has also proposed such a plan. The three proposals differ primarily in the minimum service required: seven years under S. 2663, five years under H.R. 4003, and, under the DoD proposal, five years for personnel currently in uniform and seven for those who enter after enactment.

Under all three proposals, typical severance payments might range from about \$10,000 for someone just completing a second enlistment term to well over \$20,000 for a person with 13 or 14 years of service. These payments would be much smaller than the total value of retirement benefits that would be earned by an individual who completed 20 years of military service. The proposed severance payments, however, would offer fairer treatment than is available under current law, which provides severance payments only for officer personnel. The payments would also ease the shock of being forced out.

As an alternative to severance payments, or possibly as part of a package that included modest payments, the Congress could provide early vesting in the military retirement system. Today, military personnel are eligible for nondisability retirement benefits only after completing 20 years of service; they begin receiving these benefits immediately on retiring. Deferred benefits could be made available to those who leave earlier--perhaps with as few as 5 years of service--with the payments not beginning until the person reached age 60 or 65. Such benefits might induce more people to leave the military, which would reduce the need for involuntary separations.

Avoiding Problems of an Accession-Heavy Approach

The problems associated with involuntary separations must be weighed against the problems they avoid. The across-the-board approach to personnel reductions would avoid the hole in the enlisted experience profile, creating the situation of too few Indians in the short term and too few chiefs later on. It also would avert most of the sharp growth in seniority associated with accession-heavy cuts (see Figure 1, above). Preventing seniority growth would, in turn, prevent a slowdown in promotions or a lack of challenging job assignments for those career personnel who remain in the military. Thus, the long-term damage to the morale of remaining career personnel could be avoided.

No Early Budgetary Payoff

Neither approach would reduce 1991 personnel costs dramatically. The across-the-board approach, although it would eventually save more than the accession-heavy alternative, would save only about \$0.9 billion in budget authority for DoD in 1991 (see Table 2). Under the accession-heavy approach, savings in 1991 could amount to \$1.4 billion. Both estimates of savings are relative to costs if there were no personnel cuts and reflect savings in both the officer and enlisted corps of the two services. The figures include the reductions in DoD payments into the military-retirement fund, which reflect reductions in future retirement costs.⁴

The accession-heavy approach saves more money in 1991 for several reasons. Forgoing an accession is a pure cost saver; when someone is separated instead, travel costs and payments for accumulated leave offset some of the greater savings in pay and allowances. More important, the cost estimates assume that severance payments would be authorized for those who are forced out under the across-the-board approach, which sharply reduces savings. If severance payments are authorized for enlisted personnel using the formula in S. 2663, their costs could be substantial--perhaps \$510 million in 1991.⁵ (Costs would be higher if other provisions of S. 2663, such as added health care and unemployment benefits, were also approved.)

The estimate of costs for severance payments may be too low. It assumes that severance payments are made only to the number of personnel who leave in excess of the expected number of voluntary departures. This assumption, in turn, supposes that the services are able to avoid making payments to personnel who planned to leave voluntarily. Unnecessary payments could be avoided, to some degree, if boards were established to select personnel for involuntary separation, which is the procedure now followed for officers. But payments will inevitably be made to some personnel who would have left voluntarily. At the extreme, costs for severance payments could total \$900 million if all those who leave--either voluntarily or involuntarily--were able to qualify for them. Actual costs are likely to be somewhere between these estimates of \$510 million and \$900 million, probably nearer the low end of the range.

Despite lower 1991 savings under the across-the-board approach, the long-term savings would be somewhat larger than if accession cuts predominate. Table 2 illustrates this for the Army and the Air Force, the two services for which CBO

-
4. Expressing the savings in terms of federal outlays, rather than budget authority for the Department of Defense, would tend to increase the difference between the two approaches (see the note in Table 2).
 5. This assumes that severance payments would be authorized for enlisted personnel with 7 to 19 years of service completed, under the formula used for officers: 10 percent of final basic pay for each year of service. The proposal by the Department of Defense for enlisted severance payments and H.R. 4003 would provide severance pay to personnel with as few as five years of service, but this would include some people who were completing only their first term of enlistment. The estimates also assume that those eligible for severance pay would be in the average pay grade for personnel with the same years of service. Costs for severance payment would be lower--by perhaps 5 percent to 10 percent--if involuntary separations were concentrated among people who had advanced relatively slowly.

TABLE 2. SAVINGS UNDER ALTERNATIVE APPROACHES TO PERSONNEL REDUCTIONS (In millions of 1991 dollars of Department of Defense budget authority)

| | Army Enlisted | Air Force Enlisted | Both Services, Officer and Enlisted |
|--|------------------|-----------------------|--|
| Accession-Heavy Approach^a | | | |
| Savings in 1991 | 880 | 330 | 1,400 |
| Savings in 1991-1995 | 16,230 | 7,490 | 32,860 |
| Across-the-Board Approach^b | | | |
| Savings in 1991 | | | |
| Personnel reductions | 890 | 330 | 1,600 |
| Severance payments ^c | <u>-310</u> | <u>-210</u> | <u>-710</u> |
| Total | 580 | 120 | 900 |
| Savings in 1991-1995 | | | |
| Personnel Reductions | 18,370 | 9,070 | 37,440 |
| Severance payments ^c | <u>-1,240</u> | <u>-1,140</u> | <u>-3,220</u> |
| Total | 17,130 | 7,930 | 34,210 |

SOURCE: Congressional Budget Office.

NOTE: Details may not add to totals because of rounding. Savings and costs are relative to a baseline that assumes no personnel reductions. The estimates exclude additional outlays for early retirements, which do not appear in the budget of the Department of Defense. Retirement outlays in 1991 would rise by about \$28 million under the accession-heavy approach and by about \$35 million under the across-the-board approach. The estimates include savings in Department of Defense payments into the military retirement fund: a reduction of \$320 million in 1991 under the accession-heavy approach and \$380 million under the across-the-board approach.

- a. Under the accession-heavy approach, most of the personnel reductions are made by bringing in fewer recruits. Savings assume there is no slowdown in promotions as the enlisted forces become more senior.
- b. Under the across-the-board approach, tightened reenlistment standards and involuntary separations reduce the number of personnel at virtually all years of service.
- c. Estimates of the costs of severance payments assume that payments are authorized for enlisted personnel who have completed seven or more years of service, under the formula used for officers. Officer payments assume that the cap on such payments, currently set at \$30,000 for each person, is eliminated.

has made detailed estimates. Over the 1991-1995 period, across-the-board reductions in Army and Air Force enlisted personnel (of the magnitude assumed for this paper) would save about \$25.1 billion relative to the CBO baseline; an accession-heavy approach would save \$23.7 billion.⁶ Thus, the across-the-board cuts would save about \$1.3 billion more over five years, owing primarily to the higher average pay levels of those separated under the across-the-board approach.

CUTS IN FORCE STRUCTURE

Large cuts in personnel would require eliminating some military units from the force structure, a step that requires transferring or storing equipment and perhaps closing bases. These cuts in force structure will cause some problems beyond those generated by personnel reductions.

Removing a unit from the force structure takes both time and personnel resources. Army officials have indicated to CBO that a brigade (which usually consists of about 3,000 personnel and associated equipment) can be deactivated in six to eight months, but only with help from the other brigades in its parent division. The need for help means that units other than those that are being deactivated would lose training time and would experience reduced readiness while their personnel were helping in the deactivation.

Increased personnel turnover could also reduce readiness throughout the affected services. Separating only the people assigned to the units that are being deactivated is neither equitable nor possible. Instead, the services would have to transfer personnel from the units being deactivated to the units remaining. Some temporary mismatches between job requirements and individuals' qualifications would be inevitable.

Some loss of readiness occurs whenever substantial personnel reductions are made. The reduction of 120,000 troops considered in this paper, if not made in 1991, would almost certainly take place within a few years. Thus, the issue may be when rather than whether to incur the reductions in readiness.

CONCLUSION

A large personnel reduction in 1991 appears feasible. Such a reduction would cause some turmoil in military units, however, and would result in some personnel management problems.

6. The estimates of savings assume that promotion rates and timing do not change. This assumption is consistent with a basic assumption of this analysis: that voluntary loss rates do not change. For the across-the-board approach, the assumption of unchanged promotion rates and timing has little effect. For the accession-heavy approach, however, allowing promotions to slow sufficiently to maintain a constant distribution of personnel by pay grades within each service could raise the five-year savings by \$4.3 billion. Such a slowdown would involve delaying promotions to grades E-5 and E-6 by as much as four years, compared with the typical years of service at which these promotions have recently taken place. This delay could, in turn, be expected to increase losses significantly.

Accommodating the 1991 cuts mostly through reduced accessions might appear to minimize the turmoil and management problems, but this appearance is deceptive. If large personnel reductions continue beyond 1991, as seems likely, an accession-heavy approach would create serious management problems of its own. In contrast, the problems associated with an across-the-board approach, which would include some painful involuntary separations of career personnel, could be minimized by policies such as providing severance pay for enlisted personnel. Involuntary separations shrink the career force as the overall military becomes smaller, ensuring that remaining career personnel continue to have meaningful jobs.

The problems associated with a rapid drawdown of personnel must also be considered in view of what is fair to the taxpayer. The Congress may decide that, because of reduced threats to U.S. security, the military can perform its 1991 mission adequately with 120,000 fewer personnel. In that case, slowing the drawdown to avoid personnel problems would add unnecessarily to federal expenditures, a significant problem in this era of fiscal austerity.

Many of the problems of a rapid drawdown, both for the services and for the people in uniform, can be reduced by minimizing uncertainty. The need for a clear plan for the timing and magnitude of the drawdowns is a point that Army and Air Force officials made repeatedly in discussions with CBO. It was also clear from CBO's own analysis. Give the services a goal, and they can plan how to achieve it. Leave them with uncertainty, and they must continually either make second-best choices or risk taking irreversible actions that could have severe repercussions in later years.